

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name SCHOOLCRAFT COUNTY EDC	County SCHOOLCRAFT
Audit Date 9/30/04	Opinion Date 1/20/05	Date Accountant Report Submitted to State: 3/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

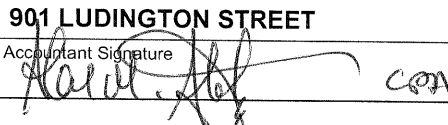
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ANDERSON, TACKMAN & CO., PLC			
Street Address 901 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 		Date 3/16/05	

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

COMPONENT UNIT FINANCIAL STATEMENTS

September 30, 2004

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schoolcraft County Economic
Development Corporation
Manistique, Michigan 49854

We have audited the accompanying financial statements of the Schoolcraft County Economic Development Corporation, a component unit of Schoolcraft County, as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Economic Development Corporation, as of September 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2005 on our consideration of the Schoolcraft County Economic Development Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Board of Directors
Schoolcraft County Economic
Development Corporation

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audit.

The Corporation has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of September 30, 2004.

The management's discussion and analysis on pages MDA-1 through MDA-3 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Company P.L.C.
Certified Public Accountants

January 20, 2005

SCHOOLCRAFT COUNTY

Economic Development Corporation

*Building
Schoolcraft
County
One Success
at a time!*

Schoolcraft County Economic Development Corporation

Management Discussion and Analysis

This section of the Schoolcraft County Economic Development Corporation's (SCEDC) annual financial report presents our discussion and analysis of the SCEDC's financial performance during the year ended September 30, 2004. Please read it in conjunction with the SCEDC's financial statements.

The following table summarizes the net assets as of September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Assets:		
Current Assets:		
Cash - - Restricted	\$51,906	\$85,683
Unrestricted	31,023	35,475
Cash - asset replacement		9,999
Certificate of Deposit	<u>10,934</u>	<u>10,770</u>
Total Current Assets	\$93,863	\$141,881
 Property & Equipment		
Land	\$ 5,000	\$ 5,000
Building	18,000	18,000
Building Improvements	19,136	19,186
Office Equipment and furniture	8,234	8,234
Less accumulated depreciation	<u>(23,250)</u>	<u>(19,669)</u>
Net Fixed Assets	<u>27,120</u>	<u>30,751</u>
Total Assets	\$120,983	\$172,582
 Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 6,730	\$ 27,103
Accrued payroll and payroll taxes	<u>3,574</u>	<u>1,781</u>
Total Current Liabilities	\$ 10,304	\$ 28,884
 Net Assets:		
Invested in capital assets, net of related debt	\$ 27,120	\$ 50,106
Unrestricted	<u>83,559</u>	<u>84,592</u>
Total Net Assets	\$110,679	\$143,698
 Total Liabilities and Net Assets	<u>\$120,983</u>	<u>\$172,582</u>

The following revenue table provides comparative revenue and expense information for the fiscal years ended September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Total Operating Revenues		
Federal sources:		
Rehabilitation grants		
--city		1,500
--county	46,766	111,426
Administration and project management	17,850	
--county		26,153
--county		48,815
Replacement housing	45,000	
State sources:		
DPA grant – county	79,877	
Home links	250	500
Administration and project management	34,770	
Rehabilitation grant – city	46,500	
Other:		
County appropriation	8,000	10,000
City appropriation	1,100	1,100
Program income --- city	21,036	54,337
county	61,272	47,300
PIP administration		9,312
Township appropriations	5,000	
Miscellaneous	<u>6,082</u>	<u>5,566</u>
Total Operating Revenues	373,503	316,009

Total Operating Expenses		
Rehabilitation grants - - city	64,648	1,500
-- county	177,680	117,565
Replacement housing	40,000	
Rehabilitation using program income		
--city	37	50,653
--county	5,502	23,043
DPA grants –county	19,148	52,381
County emergency	5,495	1,031
PIP expenses		16,096

Administrative expenses:		
Salaries and wages	57,656	53,607
Fringe benefit expense	5,634	4,682
Payroll taxes	4,411	4,101
Advertising	1,246	622
Marketing	1,071	763
Office Supplies	2,139	1,626
Depreciation	3,581	3,686
Postage	952	930
Telecommunications	2,966	3,180
Travel	2,479	4,575
Insurance	1,187	1,130
Professional services	4,211	5,035
Utilities	1,949	1,814
Subscriptions & dues	1,276	1,240
Repair & maintenance	1,372	792
Miscellaneous	<u>2,055</u>	<u>2,318</u>
Total operating expense	<u>\$406,687</u>	<u>\$352,370</u>
Operating loss	(33,184)	(36,361)
Non-Operating Income (expense)		
Interest income	<u>165</u>	<u>209</u>
Net Loss	(33,019)	(36,152)
Net Assets beginning of year	<u>143,698</u>	<u>179,850</u>
Net Assets, end of year	<u>\$110,679</u>	<u>\$143,698</u>

The Schoolcraft County SCEDC revenues increased along with expenses but overall showed a deficit of \$33,019. This is the result of the reduction of grant funding due primarily to budget cuts at the state and federal level. This financial report is designed to provide our citizens with a general overview of the SCEDC's finances and to demonstrate accountability in the funds received.

If you have any questions about this report or need additional information, please contact the SCEDC office directly at 321 Deer Street, Manistique, MI 49854.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF NET ASSETS

September 30, 2004

ASSETS

CURRENT ASSETS:

Cash - Restricted	\$ 51,906
Unrestricted	31,023
Certificate of Deposit	<u>10,934</u>

TOTAL CURRENT ASSETS	<u>93,863</u>
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FIXED ASSETS:

Land	5,000
Building	18,000
Building improvements	19,136
Office equipment and furniture	8,234
Less accumulated depreciation	<u>(23,250)</u>

NET FIXED ASSETS	<u>27,120</u>
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TOTAL ASSETS	<u>\$ 120,983</u>
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LIABILITIES AND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 6,730
Accrued payroll and payroll taxes	<u>3,574</u>

TOTAL CURRENT LIABILITIES	<u>10,304</u>
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NET ASSETS:

Invested in capital assets, net	
of related debt	27,120
Unrestricted	<u>83,559</u>

TOTAL NET ASSETS	<u>110,679</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 120,983</u>
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See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For the year ended September 30, 2004

OPERATING REVENUES:

Federal sources:

Rehabilitation grants - County	\$ 46,766
Administration and project management	17,850
Replacement housing grant	45,000

State sources:

DPA grant - County	79,877
Rehabilitation grant - City	46,500
Administration and project management	34,770
Homelinks	250

Other:

County appropriation	8,000
City appropriation	1,100
Township appropriations	5,000
Program income - City	21,036
- County	61,272
Miscellaneous	<u>6,082</u>

TOTAL OPERATING REVENUES	<u>373,503</u>
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OPERATING EXPENSES:

Rehabilitation grants - City	64,648
- County	177,680

Replacement housing grant	40,000
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Rehabilitation using program income - City	37
- County	5,502

DPA grants - County	19,148
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County emergency	5,495
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Administrative expenses:

Salaries and wages	57,656
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Fringe benefit expense	5,634
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Payroll taxes	4,411
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Advertising	1,246
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Marketing	1,071
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Office supplies	2,139
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Depreciation	3,581
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Postage	952
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Telecommunications	2,966
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Travel	2,471
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Insurance	1,187
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Professional services	4,211
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Utilities	1,949
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Subscriptions and dues	1,276
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See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

For the year ended September 30, 2004

OPERATING EXPENSES (continued):

Repair and maintenance	\$ 1,372
Miscellaneous	<u>2,055</u>

TOTAL OPERATING EXPENSES	<u>406,687</u>
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OPERATING LOSS	(33,184)
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NON-OPERATING INCOME (EXPENSE):

Interest income	<u>165</u>
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NET LOSS	(33,019)
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Net assets, beginning of year	<u>143,698</u>
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NET ASSETS, END OF YEAR	<u>\$ 110,679</u>
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See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

For the year ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from grant activities	\$ 386,969
Cash received from other sources	20,182
Cash payments to employees for services	(64,127)
Cash payments to suppliers for goods and services	(<u>355,778</u>)

NET CASH USED BY OPERATING ACTIVITIES (12,754)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>165</u>
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NET DECREASE IN CASH (12,589)

Cash and equivalents, beginning of year	<u>106,452</u>
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CASH AND EQUIVALENTS, END OF YEAR \$ 93,863

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating loss	(33,184)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	3,581
(Increase) decrease in receivables	35,429
Increase (decrease) in accounts payable	(20,373)
Increase (decrease) in accrued expenses	<u>1,793</u>

NET CASH USED BY OPERATING ACTIVITIES (\$ 12,754)

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Economic Development Corporation was incorporated on March 12, 1982 by Schoolcraft County under the provisions of Act No. 338 of the Public Acts of 1974, as amended, for the purposes of preventing conditions of unemployment and to assist commercial enterprise in order to strengthen and revitalize the economy of Schoolcraft County. To fulfill its stated purpose, the Corporation was charged with management responsibilities for distribution and control over certain grant monies.

- (1) Scope of Entity - The accompanying financial statements present information on all of the federal, state and local grants received by the Corporation.
- (2) Component Unit - The Schoolcraft County Economic Development Corporation is a component unit of the County of Schoolcraft.
- (3) Accounting Policies - The accounting policies of the Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

Basis of Accounting - Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Corporation maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred. The Corporation applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

- (4) Fixed Assets - Fixed assets, consisting of buildings and tangible personal property, are valued at cost for assets purchased by the Corporation and at estimated fair market value at date of acquisition for assets acquired by transfer from other entities.
- (5) Depreciation - Depreciation on all exhaustible fixed assets used by the Corporation is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building	20 years
Building improvements	5-10 years
Equipment	15 years

The cost of normal maintenance and repairs is charged to operations as incurred.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (6) Restricted Resources - When both general purpose and restricted revenues are available for use it is the Corporation's policy to use restricted resources first.
- (7) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND EQUIVALENTS

- (1) Cash - The composition of cash as reported on the balance sheet is presented below:

Cash items:	
Checking - restricted	\$ 51,906
- unrestricted	31,023
Certificate of Deposit	<u>10,934</u>
TOTAL	<u>\$ 93,863</u>

- (2) Deposits - At year-end, the carrying amount of the Corporation's deposits were \$93,863 and the bank balance was \$95,199. Of the bank balance, 100 percent is insured by Federal Depository Insurance according to FDIC regulations.

State statutes authorize the Corporation to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Banker's acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are related as investment grade by not less than one standard rating service.

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B - CASH AND EQUIVALENTS (continued)

- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
- i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the Local Government Investment Pool Act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost, which approximate market value, and are in accordance with statutory authority.

NOTE C - FIXED ASSETS

A summary of changes in fixed assets is as follows:

	Balance 10/01/03	Additions	Deletions	Balance 9/30/04
Land (undepreciated)	\$ 5,000	\$ -	\$ -	\$ 5,000
Building	18,000	-	-	18,000
Building improvements	19,136	-	-	19,136
Office equipment	8,234	-	-	8,234
	50,370	-	-	50,370
Accumulated depreciation	(19,669)	(3,581)	-	(23,250)
NET ASSETS	<u>\$ 30,701</u>	<u>(\$ 3,581)</u>	<u>\$ -</u>	<u>\$ 27,120</u>

SCHOOLCRAFT COUNTY
ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE D - NET ASSETS - RESERVED

Of the \$83,559 of unrestricted net assets the Board has reserved \$13,579 for future asset replacement and \$38,327 for future housing projects. The total reservations of \$51,906 also shows as restricted cash in the Statement of Net Assets.

NOTE E - CONTINGENT LIABILITIES

The Economic Development Corporation receives significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Economic Development Corporation. Management is not aware of any such claims as of September 30, 2004.

NOTE F - RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Settled claims resulting from these risks, if any, have not exceeded commercial insurance coverage in any of the past three fiscal years.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors of the Schoolcraft County
Economic Development Corporation
Manistique, Michigan 49854

We have audited the component unit financial statements of the Schoolcraft County Economic Development Corporation, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Corporation, in a separate letter dated January 20, 2005,

Board of Directors of the Schoolcraft County
Economic Development Corporation

Compliance

As part of obtaining reasonable assurance about whether the Corporation's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Corporation Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

January 20, 2005



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT TO MANAGEMENT

To the Board of Directors and Management of
Schoolcraft County Economic Development Corporation
Manistique, Michigan

Audit Committee Communications

We have audited the component unit financial statements of the Schoolcraft County Economic Development Corporation for the year ended September 30, 2004, and have issued our reports thereon dated January 20, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U. S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Schoolcraft County Economic Development Corporation. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Board of Directors and Management of
Schoolcraft County Economic Development Corporation

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Schoolcraft County Economic Development Corporation are described in Note A of the financial statements.

With the exception of the adoption of the Governmental Accounting Standards Board Statement No. 34, no new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Schoolcraft County Economic Development Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Schoolcraft County Economic Development Corporation, or a determination of the type of auditor's opinion

Board of Directors and Management of
Schoolcraft County Economic Development Corporation

to be expressed on those statements, our professional standards require the consulting accountant advise us so we may determine if the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

There were no discussions with management regarding any issues that were a condition to our retention as independent auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Suggestions

In planning and performing our audit of component unit financial statements of the Schoolcraft County Economic Development Corporation, for the year ended September 30, 2004, we considered the Corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 20, 2005, on the financial statements of the Schoolcraft County Economic Development Corporation.

We have already discussed many of these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to express our appreciation for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

This report is intended for the information of the Board, the cognizant audit agency, and other audit agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board, is a matter of public record.

Anderson, Tackman & Company P.C.

Certified Public Accountants

January 20, 2005

SCHOOLCRAFT COUNTY ECONOMIC DEVELOPMENT CORPORATION

COMMENTS AND SUGGESTIONS

September 30, 2004

INVOICE FILING

1. During our audit we noted that invoices documenting disbursements to contractors are filed in the housing project files. It would be easier to track these invoices by having individual vendor files for these invoices. We recommend that the Board consider establishing the practice where a copy of the invoice be filed by vendor for these disbursements.
2. In relation to the previous comment we feel it would be beneficial to consider filing all invoices by vendor rather than by month. This aids in invoice tracking and in documenting an audit trail. This should not be construed as a requirement, as all invoices selected for audit testing were located.

BOARD OVERSIGHT

During our audit we noted that the executive committee signs a monthly check register to indicate disbursement approval. We also noted that several months disbursement activity did not get the executive committee approval. Because of the limited number of staff available at the Corporation it is our feeling that board oversight over financial activity is of significant importance. We recommend that the Board consider establishing a finance committee. This committee would be responsible for reviewing all monthly disbursement activity, bank reconciliations and considering on a periodic basis, the review of documentation backing up the disbursement activity. Establishing this committee and these procedures would not only serve to protect the Board, but also the position of the executive director, who presently oversees all of the Board's financial activity.